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# Buying Your First Home

When it comes to where we live, we have many choices. We can choose to rent or buy, live by ourselves or with others, and live in the city or in the country. If you decide that home ownership is right for you, here is some information you'll want to know.

## A QUICK GUIDE TO THE MORTGAGE APPROVAL PROCESS

Home ownership is a serious and long-term commitment. Your home could very well be the largest purchase you'll ever make, and most first-time homebuyers need a mortgage in order to purchase their first home. A mortgage is a loan provided by a financial institution to buy a home – whether it's a house, a condo, a town home, etc. Below is a brief overview of some of the more important steps in the mortgage process.

**Preapproval** – It's a good idea to get preapproved for a mortgage by your bank before looking for a house. This will tell you approximately how much the bank is willing to borrow you and how much your monthly payment might be. This will help you to accurately determine what kind of home you can afford. Your mortgage lender will ask you to present the following:

- Pay stubs for the last month
- W-2 forms for the past two years
- Information about debt (e.g., car loans, student loans, etc.)
- Recent statements from all of your bank accounts
- Proof of any supplemental income

*More On The Reverse Side* →

## RENTING VERSUS OWNING

One of the biggest choices you will make regarding housing is whether to rent or buy. Here are some differences between the two:

### Renting

- You're not the owner of the house, so you're limited to what you can customize and must follow the rules of your landlord (e.g., pets may not be allowed).
- You're not responsible for maintaining the property (e.g., mowing the lawn, fixing the roof).
- You have greater flexibility to move.
- You don't have to pay property taxes or homeowner's insurance.
- Rent can increase over time, and leases can be cancelled.

### Owning

- Once you pay your mortgage in full, you own the home and it is yours to do with as you wish (within legal limits).
- You can build equity, something that can be an extremely valuable asset.
- It's more difficult to move.
- You have to purchase homeowner's insurance.
- You need money up front for a down payment.

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**Finding A Home –** It's best to have a good idea of what you want and need in a home before you start looking (e.g., How many bedrooms and bathrooms do you need? Do you want a fenced-in yard?). You'll also want to think about the location (or neighborhood) that you'd like to live in. Many people work with a real estate agent to assist them in finding a home, and it doesn't cost you anything to use one (in most cases, they are paid by the seller of the house). Once you've found the home you'd like to buy in your price range, you can make an offer to the seller, negotiating back and forth until you come to an agreed-upon price.

**Applying For A Mortgage –** Once you've found a home to buy and your offer is accepted, you'll need to revisit your lender to officially submit an application for a mortgage loan. The application will be reviewed and your information will be verified before approval is granted. The bank will require that an appraisal (an estimate of the home's value) be performed by a home appraiser and that a home inspection be conducted to make sure there aren't any undisclosed issues with the home that may affect the price.

**Closing –** After your mortgage loan is approved, you will have a meeting with your lender, an escrow officer, a closing agent and any real estate agents that you and the seller may be using. You will sign many documents, provide your down payment and pay closing costs, which include taxes, title insurance and other financing costs. When closing is complete, you will be given the keys to your new home.

## MORE ABOUT MORTGAGE PAYMENTS

Once you become a homeowner, you will be required to make a mortgage payment each month. This monthly payment is generally made up of four parts:

- **Principal –** The principal is the original cost of your home, before any interest or taxes. This part of your monthly payment goes toward reducing the outstanding balance of your mortgage.
- **Interest –** This part of your monthly payment goes toward the amount that the bank charges you to borrow the money.
- **Taxes –** Property taxes can amount to several thousand dollars per year, depending on the value of your house and the state where you live. Many times, banks will collect the property taxes charged by your local government as part of the monthly payment and hold them in a special account called an escrow account. Then the bank pays the taxes when they are due.
- **Insurance –** In order to get a mortgage, you must have homeowner's insurance, which can protect you financially in the event of an accident (e.g., if your house catches on fire or the basement floods in a storm). Just as they do with taxes, many banks will collect the insurance as part of the monthly payment in your escrow account, then pay the insurance company when the bill is due.